

J. C. PENNEY COMPANY

A DELAWARE CORPORATION

OPERATING 1611 RETAIL STORES

Annual Report

1942

December 31, 1942

TO THE STOCKHOLDERS OF J. C. PENNEY COMPANY:

In this report, you will find the December 31, 1942 Balance Sheet and supporting statements for J. C. Penney Company and its wholly owned subsidiaries. These figures reflect accurately the results of the year's operations and the strong position of the Company. I believe that, in addition to the financial statements themselves, you may be interested in some comment regarding the operation of the Company during a year as unusual as 1942.

Financial Position

The ratio of current assets to current liabilities is about 2 to 1. The cash accounts amount to \$64,895,094.31. This is in addition to the sum of \$30,014,600. invested by the Company in tax anticipation notes and other government securities. The working position of the Company is excellent. The investment in fixed assets is substantially the same as a year ago. This strong and liquid cash position warrants ample confidence regarding the future operation of the Company.

Profits and Taxes

Net profit for the calendar year of 1942 amounted to \$18,058,136.28, equal to \$6.58 per share on each of the 2,743,984 shares outstanding at the year-end. This included the amount of \$3,040,000. which represents Post-War credit with respect to Excess Profits Taxes which is to be paid the government but will be refunded later. The profit figure of \$18,058,136.28 compares with \$17,128,104.35, or \$6.24 per share shown for the year 1941.

Federal taxes continue to increase. The total Federal Income, Surtax and Excess Profits Tax figure for 1942 was \$35,150,000., or the equivalent of \$12.81 per share.

Sales

At the end of 1942 there were 1611 stores in operation covering all 48 states. This was a net increase of six stores over the preceding year. Normal expansion was practically eliminated because of war time restrictions in building materials and construction activity. Sales for the year totaled \$490,295,173.10 as compared with \$377,571,710.99 for 1941. This was an increase of \$112,723,462.11 or 29.85%.

It is interesting to note that in the last ten years Company sales have increased to this volume from a figure of \$155,271,981.19 in 1932, or over a 200% gain, although the number of stores has increased only from 1473 to 1611, or less than 10%. General business conditions have, of course, changed; but substantial contributing factors to this large increase per store have been better store locations and plants, improved merchandise and improved merchandise presentation, new stores in the larger cities, higher standards of management, a rebirth of small towns as trading centers, and the increased acceptance by more American consumers of Penney merchandise and of Penney values.

Inventory and Merchandise Availability

The investment in merchandise at December 31, 1942 was \$57,222,452.65. This is a reduction from the figure at the previous year-end of \$23,117,327.63. This reduction was due to three causes. The demand for merchandise exceeded the available supply and it was not possible to replenish all stocks as rapidly as they were purchased by customers. Government requirements in certain lines such as work clothing, sheets, and other staples took over large quantities of such items that would normally have been in the hands of wholesale and retail distributors. During most of the year the anticipation of an undefined type of inventory control by the government, which was actually established near the year-end, resulted in closer inventory control by management.

The year-end inventory, in the judgment of management, was well-balanced, particularly in the light of abnormal existing conditions. The prospect for merchandise replacements during the current year is dependent too much on factors beyond the Company's control to warrant a definite statement. The Penney Company deals primarily in so-called "soft goods lines" for which basic commodities are not as restricted as in the "hard line" type of merchandise. In the interest of civilian mor-

ale and of the production of war material and of the effective promotion of our national war effort, it is to be hoped that the essential character of distribution and civilian needs will be given the thoughtful consideration they demand by those charged with the responsibility of control. Our expectation is that, if such consideration is given, the Penney sales volume can be maintained at a substantial level.

Dividends

During 1942 the Company paid total dividends of \$5.00 per share, made up of four regular quarterly dividends of \$.75 each and a year-end extra of \$2.00. Such disbursements were warranted by the financial position and the year's operating record of the Company.

Effect of the War on Operating Policies

Like every individual and like other organizations, the Penney Company has been and is affected in many ways by the war. I have already referred to the restriction on expansion and on plant improvements and to the lessened merchandise supply. In many merchandise lines simplification and substitutions have been made necessary in conformance with government orders or with available materials. Although we have been obliged to accept some modifications of our usual standard specifications, every attempt has been made by our vendors and our buyers to maintain the best qualities possible. In our merchandising and advertising we have endeavored to keep and enlarge the prestige and acceptance of our widely-known Penney brands of merchandise. Out of experiments and changes we are learning, too, many things that will benefit the great body of Penney consumers after the Day of Victory.

Retail prices have been controlled by the Maximum Price Regulations since May 1942. The interpretation and application of this program, aside from its effect on profit margins, have involved a tremendous amount of detail for both the central management of the Company and for the store managers and associates. I am happy to comment on the manner in which all associates have supported this anti-inflationary program. It has been my privilege to receive a large number of letters from public officials thanking the Company for the exceptional manner in which our stores have met this responsibility and the help which they have rendered in local communities.

Company Participation in the War Program

In most of the 1611 communities where Penney stores are located, the Company has been represented by its managers and associates in various war activities, including the work of O.C.D., scrap drives, local boards, etc. The promotion of the sale of War Stamps and Bonds was made an outstanding feature of the Company's promotional effort. This was natural because in normal times Penney's low cost distribution methods and the Company's emphasis on packing the customer's dollar full of value have appealed to millions of thrifty American families. In war times, these same policies make possible savings that are released for investment in War Stamps and Bonds. This promotional activity did not assume its full proportions until about the middle of the year. However, during the last six months of 1942 Penney associates sold over \$16,000,000. worth of stamps and bonds. This activity is being continued currently and a large percentage of the Company associates are buying such securities regularly themselves as well as selling them to our customers.

At the year-end over 3,200 associates were serving in the Armed Forces. Forty-one of these were store managers. The Company has endeavored to maintain contact with this grand group of young men through personal letters, through the regular mailing of the company house organ, and through the payment to each of them of a quarterly check. The total cost of the benefits extended to these men from the Company in 1942 amounted to approximately \$300,000. This sum appears small in comparison with the job these boys are doing and with the appreciation and loyalty manifested in their words and letters.

Our Loyal Personnel

The year 1942 imposed many new problems, foreign to our usual operation and almost bewildering in their complexity and demands, on our Company personnel. To replace the men who went in service and to care for the increased volume, it was necessary to employ many new and untrained associates. I feel that I would be remiss in my duty if I did not stress in this report to you stockholders the manner in which all associates, new and old, have contributed so freely to making possible the year's results. I wish to express to them, for the entire Board of Directors and for myself personally, most sincere appreciation and thanks.

The Penney Company has for many years followed the policy of providing for the great body of its workers fair salaries, paid vacations, generous sick benefit provisions, gratuitous death protection, a sales bonus for unusual production, and the opportunity to participate in the company Thrift and Saving Plan. These provisions, which implement a policy of good "human relations" rather than "public relations", have been most helpful. Never have Penney policies with respect to personnel paid better dividends in retaining our personnel in the face of war time competition and in interesting new associates even under war time conditions.

Among the management group the principle of profit-sharing in the results produced, which is one of the bases on which this Company was founded and on which it has progressed, has again proved its value. Men have given unstintingly of their time and thought; they have cheerfully assumed additional duties; they have taken over what seemed at times impossible burdens. The spirit and efforts of the entire group, working together, have made possible the results attained to date. They constitute a most heartening source of confidence in the ability of this Penney Company, of yours and of theirs, to meet whatever the future may bring.

Sincerely,



March 15th, 1943

President.

The Annual Meeting of Stockholders will be held on April 20, 1943. A proxy statement, with a request for proxies, will be mailed to stockholders on or about March 22nd.

J. C. PENNEY COMPANY

(A DELAWARE CORPORATION)

BALANCE SHEET

As of December 31, 1942.

ASSETS

Current Assets:

| | | |
|---|--|-----------------------|
| Cash in banks and on hand | | \$ 64,895,094.31 |
| U. S. Government securities — at cost (principally Series C tax notes) | | 30,014,600.00 |
| Accounts receivable — Trade and miscellaneous | | 499,212.68 |
| Merchandise (Note) | | 57,222,452.65 |
| Total Current Assets | | <u>152,631,359.64</u> |

Investments in and Advances to Subsidiary Companies (including undistributed surplus) — at amounts as shown by Subsidiaries' Balance Sheets:

| | | |
|---------------------------|---------------------|--------------|
| Advances | \$ 3,770,000.00 | |
| Capital stock and surplus | <u>1,237,380.06</u> | 5,007,380.06 |

| | | |
|----------------------|--|-----------|
| Mortgages Receivable | | 64,795.31 |
|----------------------|--|-----------|

| | | |
|------------------------------------|--|--------------|
| Post-war Excess Profits Tax Credit | | 3,040,000.00 |
|------------------------------------|--|--------------|

Fixed Assets, at not in excess of cost, less provision for depreciation:

| | | |
|--|-------------------|---------------------|
| Land | | 1,478,999.28 |
| Buildings | \$1,848,560.98 | |
| Less Reserve for depreciation | <u>446,846.59</u> | <u>1,401,714.39</u> |
| | | 2,880,713.67 |
| Furniture and fixtures, less provision for depreciation | | 10,017,601.80 |
| Improvements to leaseholds, less amortization | | <u>1,669,302.91</u> |
| | | 14,567,618.38 |

Deferred Charges — Unexpired Insurance Premiums, Rent Advances, etc.

853,309.98

\$176,164,463.37

Note: Inventories are stated at the lower of cost or market determined as follows:
Merchandise in stores — lower of cost or market determined by the retail method.
Merchandise in warehouses — cost determined by the first-in first-out method and market on the basis of replacement cost.

J. C. PENNEY COMPANY

(A DELAWARE CORPORATION)

BALANCE SHEET

As of December 31, 1942.

LIABILITIES

Current Liabilities:

| | |
|--|----------------------|
| Accounts payable and accrued liabilities | \$ 41,716,876.14 |
| Provision for Federal taxes on income | 40,925,399.17 |
| Total Current Liabilities | <u>82,642,275.31</u> |

Reserve for Fire Losses, Etc., and Employees'

| | |
|----------------|--------------|
| Death Benefits | 2,548,225.97 |
|----------------|--------------|

Common Stock, no par value:

| | |
|-------------------------------|---------------|
| Authorized, 3,000,000 shares. | |
| Outstanding, 2,743,984 shares | 33,822,766.67 |

Surplus (Earned):

| | | |
|---------------------------------------|---------------------|---------------|
| J. C. Penney Company | \$55,963,815.36 | |
| Undistributed surplus of subsidiaries | <u>1,187,380.06</u> | |
| | | 57,151,195.42 |

\$176,164,463.37

J. C. PENNEY COMPANY

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 1942.

(Including Profits of Subsidiaries)

| | | |
|--|------------------|-------------------------|
| Sales | | \$490,295,173.10 |
| Cost of Merchandise Sold, and Selling and General Expenses (exclusive of items specifically set forth below) | \$427,478,199.60 | |
| Maintenance and Repairs | 1,325,297.75 | |
| Depreciation and Amortization | 1,813,412.41 | |
| Taxes, other than Taxes on Income | 4,454,839.13 | |
| Company Contributions to Retirement Plans for its management staff and other employees | 2,686,149.96 | 437,757,898.85 |
| | | <u>52,537,274.25</u> |
| Discount on Purchases, Interest Received and Miscellaneous Income (Net) | | <u>996,889.23</u> |
| Net Profit before Provision for Taxes on Income | | 53,534,163.48 |
| Provision for Taxes on Income: | | |
| Federal normal income tax and surtax | 7,790,000.00 | |
| Federal excess profits tax (loss post- war credit of \$3,040,000.00) | 27,360,000.00 | |
| Other income taxes | 600,000.00 | 35,750,000.00 |
| | | <u>17,784,163.48</u> |
| Add 1942 Profits of Subsidiaries | | <u>273,972.80</u> |
| Transferred to Surplus | | <u>\$ 18,058,136.28</u> |

Note:

| | | |
|--|--------|------------------|
| Common stock outstanding at end of year | Shares | <u>2,743,984</u> |
| Earnings per share of common stock, as above | | <u>\$6.58</u> |

EARNED SURPLUS ACCOUNT

| | |
|--------------------------------|------------------------|
| Surplus at December 31, 1941 | \$52,812,979.14 |
| Net Income for 1942 | <u>18,058,136.28</u> |
| | 70,871,115.42 |
| Cash Dividends on Common Stock | <u>13,719,920.00</u> |
| Surplus at December 31, 1942 | <u>\$57,151,195.42</u> |

ACCOUNTANTS' REPORT

To the Board of Directors,
J. C. Penney Company,
New York, N. Y.

We have examined the balance sheet of the J. C. Penney Company as of December 31, 1942 and the statements of profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

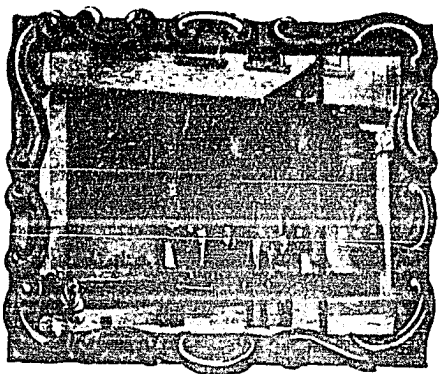
In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of the J. C. Penney Company at December 31, 1942 and the results of the operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

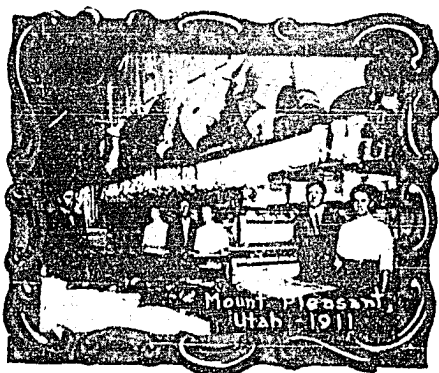
New York, N. Y.,
March 15, 1943

THE OLD

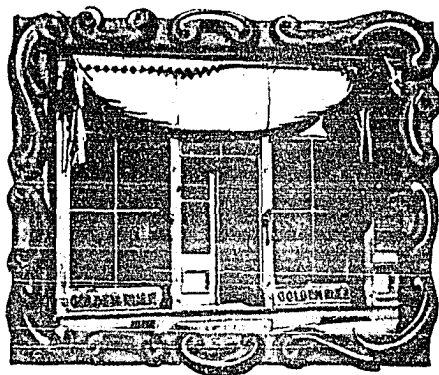
IN THE EARLY DAYS UTAH CRADLED THE PENNEY COMPANY



THE first Penney store was opened in Kemmerer, Wyoming in 1902, but ten of the next twenty were located in the state of Utah. The first of these started business in Bingham Canyon in 1908 and is still flourishing today as well as are all of the others.



THE first central office opened by Mr. Penney was also located in Utah, at Salt Lake, City in 1909, and other stores quickly followed all over the state. The principles of thrift and savings which have always characterized the Penney business had instant appeal for the Utah pioneers and the business grew and prospered.



SHOWN on the left are photographs of early Penney stores in Utah: Price at the top; Mount Pleasant in the middle and Eureka at the bottom. Several of this first group operated under the "Golden Rule" name but all met, perfectly, the needs of the early 1900's.

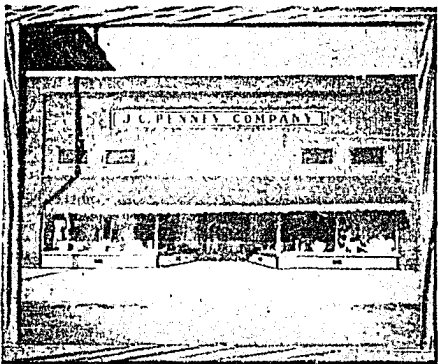
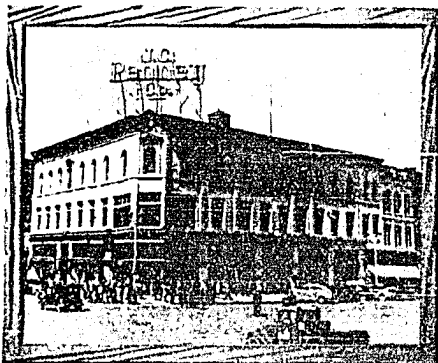
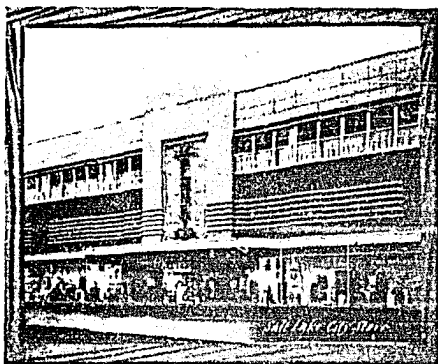
TODAY UTAH REFERENDUM ENDORSES THE PENNEY COMPANY

IN 1941 the Utah Legislature enacted a chain store tax which would have meant the eventual extinction of chain stores within the state. This law, however, was submitted to popular referendum in November 1942 and was defeated by a vote of over two to one.

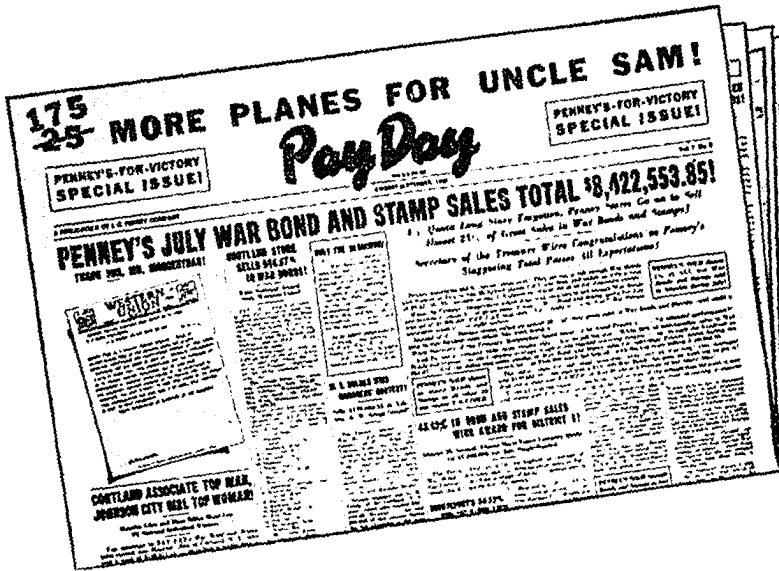
THIS vote indicates that chain stores today are recognized as good neighbors and that there is ever growing appreciation of the job of economical distribution which they are doing, even under trying war-time conditions. The J. C. Penney Company, and all business, lives and grows only if it meets a genuine need.

SHOWN at the right are three of the modern Penney stores now serving Utah: Salt Lake City, Ogden and, at the bottom, Springville. This last is typical of many of the newest small town Penney stores opened during the past few years.

THE NEW



PENNEY PERSONNEL GEARED TO WAR EFFORT



In July, 1942 the Penney Company won special recognition from the Treasury Department by selling \$3,422,553 in War Bonds through its 1611 stores. This, the best record made during the year by the retail industry, was reported in an extra issue of Pay Day, the Company monthly sales magazine.

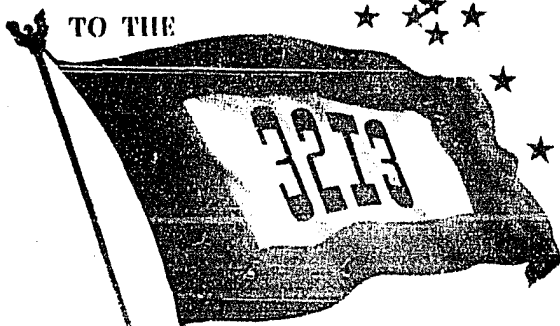


To tell the story of our men in service, the Star Spangled Issue of Pay Day went not only to the personnel of 1611 Penney stores, but circled the globe as well, to reach the 3213 Penney people in the armed forces.

PENNEY ADVERTISING SALUTES MEN IN THE ARMED FORCES

A MESSAGE

TO THE



STARS *in our Service Flag*

To you 3213 in the Armed Forces, our 3213 soldiers, sailors and marines, the J. C. Penney Company pays tribute. You come from every corner of America carrying the might of our democracy to the far reaches of the globe.

Today your tools of peace are beaten into bayonets. Today you operate the weapons of war, not the machines of commerce and industry. Today you calculate not goods bought and sold but the speed and altitude of on-rushing enemy planes.

So, hats off and hats off again to you, our brave and gallant 3213!

YOU'RE ALL STILL PART OF PENNEY'S!

Every one of you is still a part of the Penney Company and of the store from which you came. And you and your store and your job are vital to the America That Is To Be as well as to the America That Was.

For the Penney stores from which you came are part and parcel of the nation... as American as town-meetings, as ham and eggs, hot dogs and ice cream sodas! They are as national as the Eagle and as local as the town pump. Penney stores and Penney people are products of all sections—of every state—and of hundreds of American communities.

HERE ARE THREE—TYPICAL OF OUR 3213!

Out of one of our Portland, Oregon stores a Penney man flies with Daalittle to bomb Tokio—but he, like his store, is still as Northwest as the big trees.



From his job as buyer in New York another Penney man finds himself adrift in the Mediterranean, his ship torpedoed from under him—but his heart's still with the Dodgers and the hot stove league.



And yet another, from Lindsay, California is shot down in the Solomons; washed up on a desert island; rescued to fight again—but he takes with him wherever he goes love of his native state and his own home town.

WE THINK OF ALL OF YOU WITH CONFIDENCE AND DEVOTION!

And we hope you think of us with trust and understanding—when the victory is won and the flags are furled we'll be proud and happy to welcome you back to your family, your friends and your Penney store.

PENNEY'S
J. C. PENNEY CO., INC.

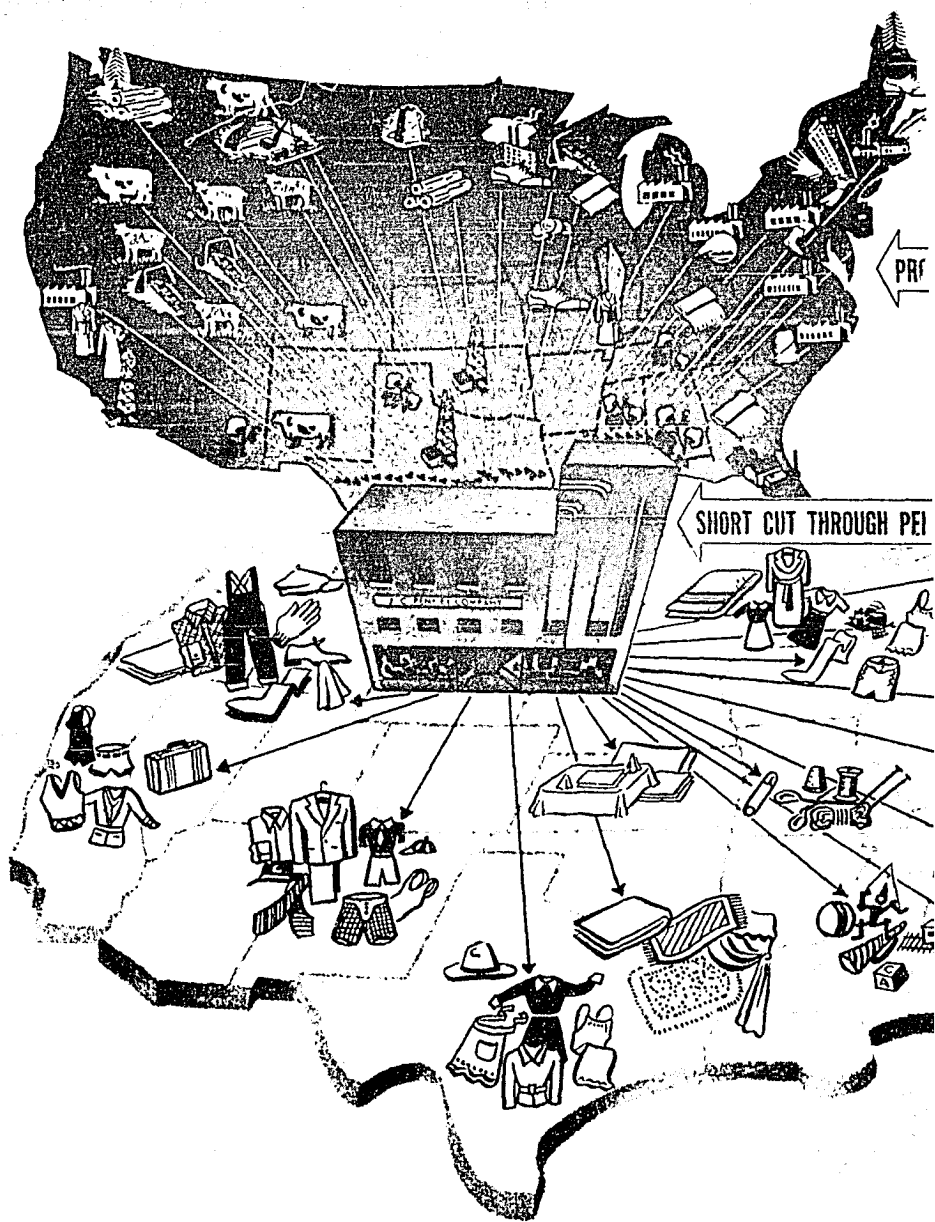
Over 2000 daily and weekly newspapers in Penney cities and towns the country over carried this advertisement, one of a series planned to run through 1943.

PENNEY WINDOWS, FROM COAST TO COAST, TALK THE WAR JOB TO THE HOME FRONT

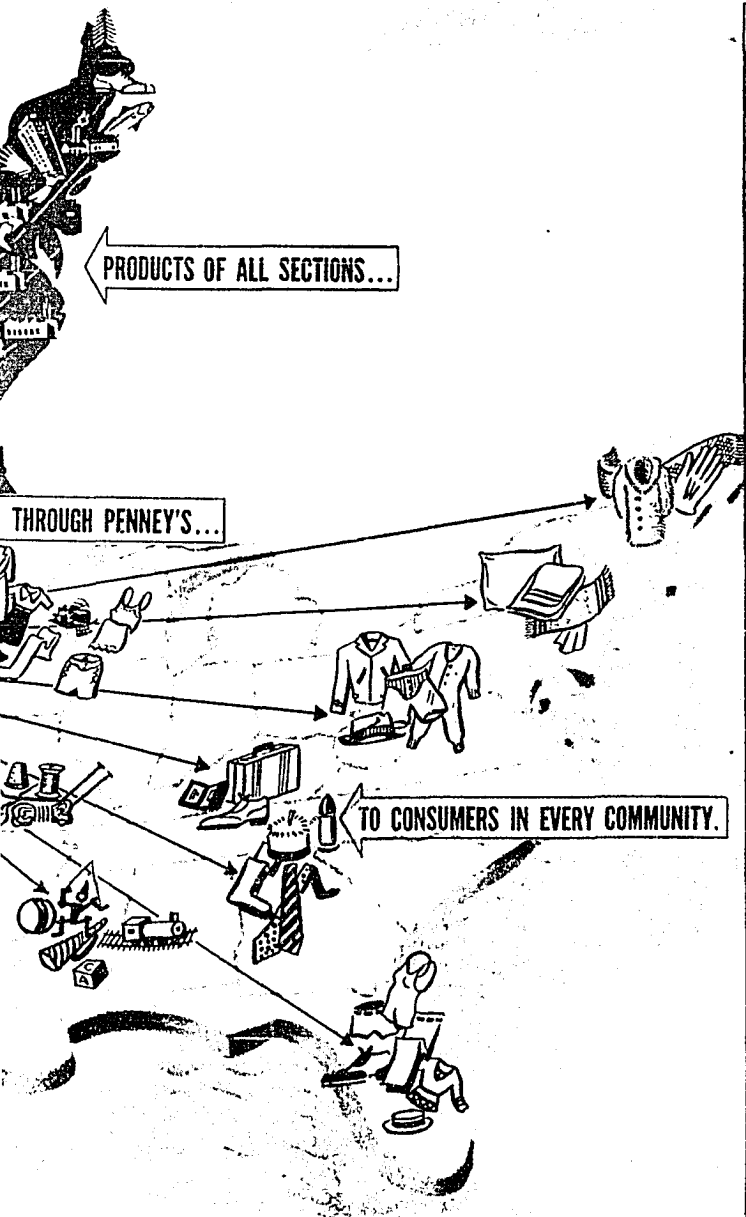


Over sixteen miles of Penney windows stretch North, South, East and West, from Maine to California and from the Gulf to the Canadian border. All are on the "Main Street" of America and all have been dedicated to the war job. These three windows, on Civilian Defense, Conservation and Scrap Salvage are typical of a continuing campaign.

PENNEY'S LOW COST DISTRIBUTION MAKES PC



MAKES POSSIBLE BETTER LIVING CONDITIONS



STORES BY STATES

DEC. 31, 1942

| | |
|----------------|-----|
| ALABAMA | 12 |
| ARIZONA | 18 |
| ARKANSAS | 18 |
| CALIFORNIA | 138 |
| COLORADO | 49 |
| CONNECTICUT | 6 |
| DELAWARE | 2 |
| FLORIDA | 19 |
| GEORGIA | 17 |
| IDAHO | 35 |
| ILLINOIS | 49 |
| INDIANA | 52 |
| IOWA | 68 |
| KANSAS | 78 |
| KENTUCKY | 22 |
| LOUISIANA | 11 |
| MAINE | 9 |
| MARYLAND | 5 |
| MASSACHUSETTS | 10 |
| MICHIGAN | 52 |
| MINNESOTA | 63 |
| MISSISSIPPI | 19 |
| MISSOURI | 49 |
| MONTANA | 38 |
| NEBRASKA | 54 |
| NEVADA | 9 |
| NEW HAMPSHIRE | 3 |
| NEW JERSEY | 4 |
| NEW MEXICO | 17 |
| NEW YORK | 33 |
| NORTH CAROLINA | 31 |
| NORTH DAKOTA | 33 |
| OHIO | 61 |
| OKLAHOMA | 49 |
| OREGON | 42 |
| PENNSYLVANIA | 58 |
| RHODE ISLAND | 1 |
| SOUTH CAROLINA | 13 |
| SOUTH DAKOTA | 27 |
| TENNESSEE | 21 |
| TEXAS | 118 |
| UTAH | 30 |
| VERMONT | 5 |
| VIRGINIA | 13 |
| WASHINGTON | 62 |
| WEST VIRGINIA | 12 |
| WISCONSIN | 54 |
| WYOMING | 22 |

TOTAL STORES..1611

J. C. PENNEY COMPANY

A DELAWARE CORPORATION

Officers

J. C. PENNEY
Chairman of the Board

E. C. SAMS
President

J. I. H. HERBERT
3rd Vice-President and Treasurer

A. W. HUGHES
Vice-President

A. J. RASKOPF
Secretary

W. A. REYNOLDS
2nd Vice-President

R. W. TROWN
Comptroller

Directors

J. C. PENNEY, Chairman

E. C. SAMS

G. H. CROCKER

J. I. H. HERBERT

W. A. REYNOLDS

GEO. H. BUSHNELL

EARL A. ROSS

L. W. HYER

A. W. HUGHES

LEW V. DAY

F. W. BINZEN

